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INDIA'S AEROSPACE: REFORMS AND INITIATIVES TO INDUCE TAKE-OFF

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The Aero India 2015 that concluded in February did make headlines and many commentators called it both a major success and many differed calling it more of an event whose main attraction was the Prime Minister and his 'Make in India' initiative. Prime Minister Modi, stressed on three points; to create an atmosphere for investment for the sector's growth, more funding by the government and to ensure greater accountability on the part of the public sector. However, despite all the rhetoric there was no mentioning of defence procurement procedure and no mention of FDI reduction in terms of high technology transfers¹. The event did showcase Hindustan Aeronautics Ltd's light combat aircraft, Tejas along with the National Aerospace Laboratories showcasing autoclave, radomes, wind tunnel model, Dhvani Drishti, wankel engine, carbon fibre and so on. According to one author, despite the assertion of Aero India 2015 being the largest show ever, the exhibition was smaller, with fewer exhibitors and even those who exhibited; the scale was modest compared to previous editions. Even Russia did not bring any aircraft to the show and many CEO's gave the Aero Show a miss, instead deputing their local officials.

In comparison, the China Air Show held just a few months before in Zhuhai, Guangdong Province had a large participation with the PLAAF showcasing in-service equipments. Three stand outs were the showcasing of the Y-20 transport aircraft independently developed by China's Xian Aircraft Corporation (XAC), the J-31 stealth fighter² and the showcasing of Su-35 fighter by Russia which is the most advanced Russian aircraft today³. Both the nations' air shows held their 10th edition but on comparison



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China's Zhuhai Air Show in a short span of time has assumed the character of an international trade show for civil aviation with the entire East Asian region coming to it as potential buyers. In comparison, India's air show held in Bangalore hasn't grown in stature to be declared an international Air show. In an article by Cuckoo Paul in Forbes published just few days before Aero India 2015, the author wrote that the 'Make in India' still seems a distant dream as still many bottlenecks remain namely the procurement procedures and the FDI limit which is still comparatively low to induce investments in terms of technology transfers through joint ventures and R&D⁴. India, like China, still lacks the latest technologies, however unlike China India still follows a policy that inhibits foreign investments into this sector. Taking the case of FDI in high technology industry in India, foreign companies are not allowed to hold a majority stake in Indian entities, leading to reluctance on the part of the foreign companies to transfer state-of-art technologies. In comparison, China seeks the exchange of technology for greater market access which underpins industrial policies in China's aerospace sector and a greater inflow of western technologies.

Given the scope and size of China's aerospace sector, there exist major incentives for investors who seek active participation in China's Air Show to create business opportunities and use it as a platform to showcase their latest inventories. In the 2014 edition, the Russians showcased their latest fighter, the Su-35, and the United States government, despite various apprehensions within its military establishments, sent the Boeing C-17 Globemaster III for the Air show in Zhuhai⁵. India can take note and assess its own policy by looking at China in order to make India an attractive destination for foreign businesses. China has been providing huge subsidies to its aerospace sector making its products globally more competitive and at the same time through joint ventures with foreign entities has been able to keep the quality up to international standards. India falls short in this respect because of various institutional limitations. The Indian aerospace



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sector which is comparatively fragmented with several authorities as stakeholders needs to be more streamlined into one cohesive unit. China's aerospace industry has benefited as a result of such structural changes⁶. The Chinese government has also made huge investment in R&D, creating a supportive environment through introduction of large amount of foreign equipment at major institutes and universities. Similar effort is required to be done in India to build self-reliance and capabilities in commercial aerospace manufacturing⁷. Even T Suvarna Raju, the Chairman of HAL, in the HAL media conference at Aero India 2015, emphasised on the need to pump up spending on skill development, when he stated the fact that only 2% of Indian population are vocationally skilled as compared to 75% in Germany, 96% in Korea and 80% in Japan. Therefore, the need is to make the aerospace sector more attractive to foreign investors by increasing the FDI cap and undergoing tax reforms. A 2011 CII-KPMG report on the Indian Aerospace and Defence sector called for a complete exemption of customs duties on imports of various defence equipment or other products required for the production, development and maintenance of defence goods. For goods supplied consisting of defence items and items for producing, manufacturing and maintaining defence goods; the report proposed exemption from excise duties⁸.

India has the potential as it is seen by many as a lucrative investment with a growing aviation market. At the present moment the momentum seems to be going in the right direction, the recent visit of PM Modi to France where he visited the Airbus Headquarters in Toulouse and received assurances from Airbus Industrie that its Indian outsourcing will increase from \$ 400 million to \$ 2 billion over the next five years as part of the Indian government's 'Make in India' initiative. Boeing is also considering developing a competitive supplier base in India which is fully integrated into Boeing's global supply chain having a work force capable of supporting aerospace-grade manufacturing. Engine manufacturer Snecma and India's HAL are exploring a joint venture for the production of aerospace parts in India⁹. Indian company, Dynamatic Technologies would also be involved



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with AeroVironment which is a leading manufacturer of UAV's and systems to manufacture small unmanned air systems, dubbed the "Cheel"¹⁰. For India the prospect seems good and seems to be heading in the right direction with President Obama during a joint statement with Prime Minister Modi on January 25, 2015, stating that the two administrations would pursue export reforms so that more advanced high-tech cooperation could take place with India in the near future¹¹. However, sincere institutional reforms need to be undertaken. China, which has a large civil aviation sector- second only to the United States- has already done so to an extent and is still undergoing rigorous institutional reforms. China's latest five year plan calls for increment in its R&D funding for its aerospace sector. The Indian 2015-16 Union budget that intends to focus on 'Make in India' initiative in order to boost local manufacturing of defence equipment and exports could be considered a good start. But the need is for institutional reform as the industry is still under huge technological strain. The opening up to the idea of greater market access would enable greater flow of technologies and in due course would enable the industry to gain greater technical know-how.

(Disclaimer: The views and opinions expressed in this article are those of the author and do not necessarily reflect the position of the Centre for Air Power Studies [CAPS])

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End Notes

¹ Pravin Sawhney and Ghazala Wahab, "All Eyes in the Sky- Prime Minister Narendra Modi Lends his weight to Aero India 2015", *Force: National Security and Aerospace Newsmagazine*, Vol 12 No 7, March (2015): 6-9.

² The J-31 stealth fighter is modeled to compete with the U.S. fifth generation F-35; as a low-cost alternative being modeled in part of stolen F-35 technology.

³ Zhang, Tao. "Five Highlights at China Air Show 2014", *China Military Online*, November 13, 2014. http://english.chinamil.com.cn/news-channels/China-military-news/2014-11/13/content_6221752.htm.

⁴ Cuckoo, Paul. "What to expect at Aero India 2015", *Forbes*, February 7, 2015. <http://forbesindia.com/article/checkin/what-to-expect-at-aero-india-2015/39531/1>. accessed on 9.4.2015.

⁵ Despite various apprehensions from the security and military experts that feared that even by just bringing the C-17 jet to China for the air show there runs the risk of China exploiting it on the tarmac or inside the hanger at the air show by photographing the inside of the plane or using technology that would give the PLA the upper hand as it develops its own plane.

⁶ China's AVIC has emerged as the major aircraft organization that is involved in the R&D and production of civil and military aircrafts; furthermore China has also centralized its aerospace activities under one ministry at the government level.

⁷ "Aerospace: Regulatory & Policy Benchmarking". http://www.dsr.gov.in/reports/isr1/Aerospace/8_7.pdf, accessed April 6, 2015.

⁸ CII-KPMG, "Unlocking the Potential: The Indian Aerospace and Defense Sector", 2011. http://www.kpmg.com/IN/en/IssuesAnd_Insights/ThoughtLeadership/KPMG_Indian_Defence_Industry.pdf, accessed April 7, 2015.

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¹⁰ Beth, Stevenson. "India to develop Indigenous variant of AeroVironment UAV's", *Flightglobal.com*, February 17, 2015. <http://www.flightglobal.com/news/articles/india-to-develop-indigenous-variant-of-aeroviroment-409142/>. Accessed April 10, 2015.

¹¹ *Office of the Press Secretary, The White House*, "Statements by President Obama and Prime Minister Modi of the Republic of India", January 25, 2015. <http://www.whitehouse.gov/the-press-office/2015/01/25/statement-president-obama-and-prime-minister-modi-republic-india>. Accessed April 13, 2015.